

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0523-09
Bill No.: Truly Agreed To and Finally Passed SS #2 for SCS for HB 116
Subject: Auditor-State; Counties; County Government; County Officials; General Assembly; Insurance-Medical; Retirement-Local Government; Retirement-Schools; Retirement-State; Retirement Systems and Benefits-General; Transportation
Type: Original
Date: June 12, 2013

Bill Summary: This bill changes the laws regarding audits.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|-----------------------|----------------|----------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| General Revenue | (\$55,100,000) | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (\$55,100,000) | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| Missouri Senior Services Protection | Unknown | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | Unknown | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 14 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------|----------|----------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|---------------------------|---------------------------|---------------------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| Local Government* | Up to \$11,400,000 | Up to \$13,500,000 | Up to \$14,600,000 |

*Does not reflect a reduction in the Unfunded Actuarial Accrued Liability (UAAL) of \$56.5 million, \$52.0 million, and \$44.7 million for FY 2014, FY 2015, and FY 2016, respectively, to the Police Retirement System of the City of Kansas City.

*Does not reflect an increase in the UAAL of \$5.1 million, \$6.1 million and \$7.3 million for FY 2014, FY 2015, and FY 2016, respectively, to the Civilian Employees' Retirement System of the Police Department of the City of Kansas City.

FISCAL ANALYSIS

ASSUMPTION

§§ 29.005, 29.185, 29.190, 29.200, 29.210, 29.216, 29.221, 29.230, 29.235, 29.250, 29.260, 29.351, 103.025, 104.190, 104.480, 169.020 - Duties of the State Auditor:

Officials from the **Office of the State Auditor (SAO)** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** state, as written, the legislation could increase the DOR's expenses. The State Auditor completed an audit of sales tax records maintained by the DOR on November 30, 2012. The DOR makes personnel available to audit staff as needed. The DOR estimates providing approximately 360 hours of taxation support and 140 hours of Information Technology support during the audit.

If the provisions of this legislation allow the state auditor to also audit corporate income, individual income, and employer withholding tax records, the DOR estimates a similar amount of staff time could be attributed to audits in each of those tax types. In addition, since no audits have previously been performed by the state auditor for any of the tax types mentioned above, the amount of time needed to perform a complete audit may be doubled or tripled. Therefore, the DOR may expend \$176,427 in salaries and benefits for staff assistance for any additional audits performed.

The above assumes, though, that the state auditor will use the new authority in the bill to perform corporate and individual income and withholding tax audits at a level similar to the current level of sales tax audits and in a similar manner. Should the state auditor choose to perform significantly more audits of the new tax types, or to perform them when the DOR's resources are primarily focused on processing individual and corporate income tax returns during the peak of the relevant filing seasons, total state revenue may be negatively affected, by an unknown amount.

Further, the legislation allows the state auditor access to tax information the DOR presently gathers from federal sources and in turn uses to aid in the collection of state revenue. Disclosure of such information could negatively impact revenue by blocking the DOR's use of such federal data.

The DOR estimates this proposal will have a cost impact on the general revenue funds of the department of \$115,357 in FY 14; \$82,087 in FY 15; and \$82,908 in FY 16.

ASSUMPTION (continued)

Oversight assumes DOR could request additional FTE for staff assistance required with any audits that may be performed if the need arises and could absorb any administrative costs with existing resources.

Officials from the **Missouri Local Government Employees Retirement System (Mo LAGERS)** state, in complying with Section 70.615.18, RSMo, the Board of Trustees receives an annual audit within 4 months of the fiscal year-end at a cost of approximately \$50,000.

Any additional audits of the same period would be a duplicative cost to Missouri citizens. The amount of the duplicative cost would be contingent upon the frequency of audits and hours committed to the project.

Officials from the **Public School Retirement System (PSRS)/Public Education Employee Retirement System (PEERS)** state currently, the state auditor is allowed to review the financial audit of the PSRS/PEERS systems conducted by an external certified public accountant firm. Section 29.216 enacts a new provision which explicitly gives the state auditor the ability to conduct an audit of any public retirement plan or public employee health care system that operates in the state.

This bill also amends Section 169.020, subsection 22. Current law allows the state auditor to review the audit and accounts of the System every three years and report the findings to the Board of Trustees and to the Governor. This bill deletes the provision which requires the State Auditor to review the audit and file a report every three years on the Systems.

In complying with Section 169.020 RSMo, the PSRS/PEERS Board of Trustees receives an annual audit within 4 months of the fiscal year-end at a cost of approximately \$70,054 (2012). While PSRS/PEERS does not object to any review of our Systems and have always cooperated fully with the State Auditor's Office, our members, the media and the public, any additional audits of the same period would be duplicative in nature and result in duplicative cost to the Missouri teachers and school districts. The amount of the duplicative cost would be contingent upon the frequency of audits and hours committed to the project.

This legislation would have no material fiscal impact on the Systems.

ASSUMPTION (continued)

Officials from the **Department of Agriculture (AGR)** state the impact is unknown and depends on how the State Auditor implements the authorizations included in this bill. AGR does not currently pay for audits initiated by the State Auditor. Section 29.200.5 authorizes the auditor to contract with federal agencies or any government agency on a cost reimbursement basis. If a state agency is charged for the cost of these audits, the cost could be significant.

Officials from the **Prosecuting and Circuit Attorney's Retirement System (PACARS)** assume the bill has the potential to have a detrimental effect on the financial condition of PACARS because it allows for essentially unlimited audits of PACARS and provides essentially unlimited subpoena power with respect to documents and records of the system. The bill does not contain any provision allowing the systems to recover any of their costs in complying with these audits and demands for records. At present, the Auditor's power to audit PACARS is limited to financial audits conducted periodically, but not every year. Therefore, it is expected that PACARS will have to expend monies complying with the Auditor's requests for documents and information which it would not have had to spend were it not for the change in the law.

Officials from the **Department of Economic Development (DED) - Missouri Housing Development Commission (MHDC)** provide the following:

29.200.5:

MHDC is currently obligated to perform audits on all federal contracts pursuant to OMB Circular A-133 and audit our financial activities independently pursuant to RSMo 215.240. The proposed language could result in duplicative audits and redundant costs if the audits were performed on the same federal programs, as required of MHDC.

29.235.3:

Unless otherwise authorized by law, the legislation prohibits state agencies from entering into contracts for auditing purposes without prior written approval from the State Auditor.

RSMo 215.240 stipulates that MHDC "shall cause an annual audit to be made by an independent certified public accountant"; with this language in mind, MHDC assumes it will fall under the "unless otherwise authorized by law" exemption to the proposed change.

As a general comment, the proposed legislation expands the authority of the State Auditor to examine records, contracts and facilities. That expansion may well affect the existing contractual relationships between MHDC and its partners. The inclusion of up front, contraction obligations,

ASSUMPTION (continued)

stipulating access into personal business records (those that partner with state and federal programs) may dampen the appetite for investment.

Officials from the **Department of Natural Resources (DNR)** state sections 29.005 through 29.351 would change the laws regarding the responsibilities of the office of the state auditor. There are no identifiable responsibilities for the DNR outlined in the proposal; therefore, the DNR would not anticipate a direct fiscal impact as a result.

Officials from the **Department of Mental Health (DMH)** state it appears that the changes in Chapter 29 don't significantly impact how the State Auditor's Office would conduct audits of the DMH. The proposed changes to the State Auditor's responsibilities appear to put into statute specific language regarding how they have operated for years. It does not appear that there will be a significant fiscal impact to the DMH as a result of the proposed changes.

Officials from the **Department of Social Services (DSS)** state this bill changes provisions relating to the State Auditor's Office (SAO) and outlines all acts and activities of the SAO, including language that says the SAO would be allowed to audit Community Action Agencies. There will be no change to the current way the SAO handles audits with the DSS. Therefore, there is no fiscal impact to the DSS.

§§ 33.087, 33.300, 37.850 - Documenting Grant/Federal Funds on Accountability Portal:

Officials from the **Missouri Department of Conservation (MDC)** state the proposal will have an unknown, negative fiscal impact, but the impact is expected to be less than \$100,000 annually. Current grants have binding language regarding use of federal funds and the necessary administration for those purposes.

Oversight assumes the MDC will be able to absorb any costs associated with this proposal within current funding levels.

Officials from the **Department of Natural Resources (DNR)** state section 33.087 of this proposal would require the DNR to make certain information easily available to the public on the Missouri accountability portal within thirty days of receipt or transfer of federal grants of one million or more.

If the DNR receives a grant of federal funds and transfers a portion of the funds to another department or division, the department or division receiving the transferred funds shall report to

ASSUMPTION (continued)

the department or division from which the funds were transferred, an accounting of how the transferred funds were used and any statistical impact that can be discerned as a result of such usage. The DNR defers to the Office of Administration for fiscal impact from this provision of the proposal.

Officials from the **Department of Public Safety (DPS) - Missouri Veterans Commission (VET)** state the proposal will have no fiscal impact to the VET. However, the VET will have to post federal grants on the accountability portal with existing resources.

The **Department of Health and Senior Services** defers to the Office of Administration regarding the statewide fiscal impact of this section of the proposed legislation.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration (DIFP)** defer to the Office of Administration for response regarding the potential fiscal impact of this proposal.

For section 33.087, officials from the **Department of Elementary and Secondary Education (DESE)** defer to the Office of Administration for response. DESE officials assume section 37.850 will have no fiscal impact on their organization.

Officials from the **Department of Mental Health (DMH)** state, for the portions of this legislation which made changes to Chapters 33 and 27, the DMH assumes that this legislation would cause a negligible fiscal impact to the department and defer to the Office of Administration for any statewide fiscal impact.

In response to similar legislation (HB 217), officials from the **Office of Administration (OA)** assumed that a consolidated approach would be the most cost effective manner of reporting and that this information would be accumulated and reported on the Missouri Accountability Portal (MAP).

This approach would establish a new MAP database table into which agencies will either interface data or perform maintenance online. With this method, a new tab and web pages would be added to MAP to display the data by selecting a state agency or 'all'. The proposal does not specify whether only active grants should be reported or if closed grants should be retained for historical reporting purposes. If historical data is needed, selection criteria should be added to choose active, closed, or 'all' grants. The data would also be made available in the MAP download section.

ASSUMPTION (continued)

It is estimated that the total cost would be \$26,860 (\$85 per hr * 316 hrs) for IT consultants. It is assumed the cost could be absorbed unless the cumulative fiscal impact of legislation would require the request for additional funding.

Oversight assumes OA is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA could request funding through the appropriation process.

§§ 50.055, 50.057, 50.622, 50.1030, 56.809 - County Audits:

Officials from the **Department of Natural Resources (DNR)** state sections 50.055 through 50.1030 would change the laws regarding the responsibilities of the Office of the State Auditor. There are no identifiable responsibilities for the DNR outlined in the proposal; therefore, the DNR would not anticipate a direct fiscal impact as a result.

Officials from the **Department of Mental Health (DMH)** state changes to Chapter 50 relate to county audit and county budget information which results in no direct fiscal impact to the DMH.

§§ 86.200, 86.257, 86.263, 86.900, 86.990, 86.1000, 86.1010, 86.1030, 86.1100, 86.1110, 86.1150, 86.1151, 86.1180, 86.1210, 86.1220, 86.1230, 86.1231, 86.1240, 86.1250, 86.1270, 86.1310, 86.1380, 86.1420, 86.1500, 86.1530, 86.1540, 86.1580, 86.1590, 86.1610, 86.1630 - Retirement and Pension Funds:

Officials of the **Joint Committee on Public Employee Retirement (JCP)** have reviewed this proposal and have determined that certain provisions represent “substantial proposed changes” to some plan benefits as defined in section 105.660(5), RSMo. Therefore, actuarial cost statements were required of these systems and were furnished and properly filed pursuant to 105.670, RSMo.

JCP states, according to the **Kansas City Police Employees’ Retirement System (KCPRS)**, the provisions of this proposal will decrease the annual required employer contributions by approximately \$11,400,000, \$13,500,000 and \$14,600,000 in FY 2014, FY 2015, and FY 2016 respectively. The employee contribution has been negotiated with stakeholders to increase from 10.55% to 11.55% of pay for Police employees.

Officials from the KCPRS assume the proposal will create a significant savings to local funds.

ASSUMPTION (continued)

The decrease in employer contribution will have a long term fiscal impact, beyond the scope of this fiscal note. In a cost study of the impact of this proposal, it is assumed that the changes will impact the benefits of current retirees, current actives and future actives. In addition, in recent years the City of Kansas City has contributed a fixed contribution rate. As part of the changes in this proposal, the City will make the full actuarial contribution rate in future years.

Officials from the **Police Retirement System of St. Louis** state the only cost borne will be \$30,000 and that cost will not be realized until the plan reaches a funding level of 80%. The current funding level is 78%.

Oversight will range the fiscal impact from \$0 (plan has not yet reached the funding level of 80% as specified in Section 86.257.1) to the estimate provided by the St. Louis Police Retirement System.

§ 208.1050 - Missouri Senior Services Protection Fund:

In response to similar legislation (TAFP'd SCS for HCS for HB 986), officials from the **Office of Administration - Division of Budget and Planning (BAP)** stated the proposed legislation should not result in additional costs or savings to the BAP.

The legislation creates a new fund, the Missouri Senior Services Protection Fund and instructs the State Treasurer to deposit money that would have otherwise been deposited in general revenue to the amount of \$55,100,000. The TAFP FY 14 budget contains appropriations from the Missouri Senior Services Protection Fund for programs previously funded from General Revenue in the amount of \$55,100,000.

Oversight notes the FY14 budget includes the \$55,100,000 funding for the Missouri Senior Services Protection Fund. However, since this is a new decision item/new fund/ new program, Oversight is continuing to present this cost for fiscal note purposes.

Officials from the **Department of Mental Health (DMH)** state this bill creates the "Missouri Senior Services Protection Fund" which shall be solely used for the administration of services for low-income seniors and people with disabilities. The state treasurer shall be the custodian of the fund. Subsection 2 states that the money in the fund shall be allocated for services for low-income seniors and people with disabilities. The intent of the funds is unclear; therefore, the fiscal impact to DMH is unknown.

ASSUMPTION (continued)

Bill as a Whole:

Officials from **St. Louis County** assume the proposal will have a minimal negative fiscal impact on their organization.

Officials from the **Office of Attorney General (AGO)** assume that any potential costs arising from this proposal can be absorbed with existing resources. If there is a significant increase in the number of referrals, the AGO may seek additional appropriations.

Officials from the **Office of State Courts Administrator, Department of Corrections, Department of Higher Education, the Department of Public Safety (DPS) - Capitol Police, the DPS - Division of Fire Safety, the DPS - Missouri State Highway Patrol, the DPS - State Emergency Management Agency, the Office of the Governor, the Department of Mental Health, the Office of State Treasurer, and the MoDOT & Patrol Employees' Retirement System** each assume the proposal would not fiscally impact their respective agencies.

| <u>FISCAL IMPACT - State Government</u> | FY 2014 (10 Mo.) | FY 2015 | FY 2016 |
|--|------------------------------|-------------------|-------------------|
| GENERAL REVENUE FUND | | | |
| <u>Transfer-Out</u> - § 208.1050 - Missouri Senior Services Protection Fund | <u>(\$55,100,000)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND | <u>(\$55,100,000)</u> | <u>\$0</u> | <u>\$0</u> |
| MISSOURI SENIOR SERVICES PROTECTION FUND | | | |
| <u>Transfer - In</u> - § 208.1050 - General Revenue Fund | \$55,100,000 | \$0 | \$0 |
| <u>Income</u> - § 208.1050 - STO Interest income | Unknown | \$0 | \$0 |
| <u>Costs</u> - § 208.1050 - STO Low income seniors and disabled persons service expenditures | <u>(Unknown)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON THE MISSOURI SENIOR SERVICES PROTECTION FUND | <u>Unknown</u> | <u>\$0</u> | <u>\$0</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2014 (10 Mo.) | FY 2015 | FY 2016 |
|---|---------------------|---------|---------|
|---|---------------------|---------|---------|

LOCAL GOVERNMENTS

Savings - §§ 86.900 - 86.1630

- City of Kansas City

| | | | |
|--------------------------|--------------|--------------|--------------|
| Employer Contributions * | \$11,400,000 | \$13,500,000 | \$14,600,000 |
|--------------------------|--------------|--------------|--------------|

Costs - §§ 86.200 - 86.263 - St. Louis

| | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Police Retirement System | <u>\$0 or (\$30,000)</u> | <u>\$0 or (\$30,000)</u> | <u>\$0 or (\$30,000)</u> |
|--------------------------|--------------------------|--------------------------|--------------------------|

ESTIMATED NET EFFECT ON

LOCAL GOVERNMENTS

| | | |
|---------------------|---------------------|---------------------|
| <u>Up to</u> | <u>Up to</u> | <u>Up to</u> |
| <u>\$11,400,000</u> | <u>\$13,500,000</u> | <u>\$14,600,000</u> |

*Does not reflect a reduction in the Unfunded Actuarial Accrued Liability (UAAL) of \$56.5 million, \$52.0 million, and \$44.7 million for FY 2014, FY 2015, and FY 2016, respectively, to the Police Retirement System of the City of Kansas City.

*Does not reflect an increase in the UAAL of \$5.1 million, \$6.1 million and \$7.3 million for FY 2014, FY 2015, and FY 2016, respectively, to the Civilian Employees' Retirement System of the Police Department of the City of Kansas City.

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

§§ 86.200 - 86.263 - St. Louis Police Retirement System:

Currently, any member of the Police Retirement System of St. Louis who has completed at least 10 years of creditable service and has become permanently unable to perform the duties of a police officer as the result of an injury or illness not exclusively caused or induced by the performance of his or her official duties or by his or her own negligence will be retired by the Board of Police Commissioners upon certification by the medical board of the retirement system. The bill lowers the creditable service requirement to five years once the retirement system's annual actuarial valuation is at least 80% as required by Section 105.660 RSMo.

§§ 86.900 - 86.1630 - Kansas City Police Employees' Retirement Systems:

This proposal makes modifications to the current plans of the Kansas City Police Retirement System.

FISCAL DESCRIPTION (continued)

§ 208.1050 - Missouri Senior Services Protection Fund:

This proposal creates the Missouri Senior Services Protection Fund within the state treasury. The State Treasurer is to be custodian of the fund and may approve disbursements. In addition, the State Treasurer is to deposit into the fund \$55,100,000 with at least one quarter of that amount to be deposited on or before July 15, 2013 and an additional one-quarter of the amount to be deposited on or by October 15, 2013, January 15, 2014 and March 15, 2014. Moneys in the fund are to be allocated for services for low-income seniors and people with disabilities.

This section has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Attorney General
Department of Agriculture
Office of State Courts Administrator
Department of Economic Development -
 Missouri Housing Development Commission
Department of Elementary and Secondary Education
Department of Higher Education
Department of Insurance, Financial Institutions,
 and Professional Registration
Department of Mental Health
Department of Natural Resources
Department of Health and Senior Services
Department of Revenue
Department of Social Services
Department of Public Safety -
 Capitol Police
 Division of Fire Safety
 Missouri State Highway Patrol
 State Emergency Management Agency
 Missouri Veterans Commission
Office of the Governor
Department of Conservation

SOURCES OF INFORMATION (continued)

Department of Corrections
Office of State Auditor
Office of State Treasurer
St. Louis County
Joint Committee on Public Employees' Retirement
MO Local Government Employees' Retirement System
MoDOT & Patrol Employees' Retirement System
Public School Retirement System
Kansas City Police Employees' Retirement System
St. Louis Police Retirement System
Prosecuting and Circuit Attorney's Retirement System



Ross Strope
Acting Director
June 12, 2013